

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**A REVIEW OF THE STATE DEPARTMENT
OF EDUCATION'S ACTIONS TO IMPLEMENT
AUDITOR GENERAL RECOMMENDATIONS
MADE BETWEEN 1980 AND 1984**

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P-459.1

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OF EDUCATION'S ACTIONS TO IMPLEMENT
AUDITOR GENERAL RECOMMENDATIONS
MADE BETWEEN 1980 AND 1984

JANUARY 1985



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January 8, 1985

P-459.1

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning our review of the State Department of Education's actions to implement Auditor General recommendations made between 1980 and 1984. The report indicates that the State Department of Education implemented 47 of the Auditor General's 57 recommendations. Seven of the recommendations are no longer applicable, and the department did not implement three of the Auditor General's recommendations. However, for reasons discussed in the report, we recommend no further audit work on these three recommendations.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

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SUMMARY

The State Department of Education (department) has fully implemented 79 percent of the recommendations that the Auditor General made from 1980 to 1984. The changes that the department has made as a result of the Auditor General's recommendations should improve the department's administrative control over its various programs and activities.

In 15 performance audit reports, the Auditor General made 57 recommendations to the department. The department fully implemented 45 and partially implemented 2 of these recommendations. An additional 7 recommendations are no longer applicable because legislation invalidated them or because the department is no longer the agency responsible for the issues in question.

The department did not implement three of the Auditor General's recommendations. A department official stated that the first recommendation, calling for more detail in the audit reports of child care programs operated by school districts, was not implemented because the Department of Finance did not agree with the recommendation. However, the Auditor General is currently involved in developing the audit standards for financial and compliance audits of child care providers. Therefore, we recommend no further audit work on this issue. Furthermore, we recommend no further audit work on the other two recommendations because the department took steps to improve its estimate of the condition of the state school fund and because the Legislature established a new program to review and report on financial and compliance audits of school districts.

INTRODUCTION

In fiscal year 1983-84, over 4 million students attended public elementary and secondary schools in California's 1,029 school districts. California's K-12 education system is administered by the State Department of Education (department), the 58 county offices of education, and the school districts. The department's responsibilities cover a broad range of educational programs and activities. In addition to apportioning state funds to local school districts, the department also allocates funds for federal programs, including special education, migrant education, compensatory education, and various child nutrition and day care programs. The department also provides assistance to school districts on curriculum development and in-service training programs for school district personnel, assesses the quality of educational programs, and ensures that school districts comply with program requirements.

In fiscal year 1983-84, California spent approximately \$11.8 billion in federal, state, and local funds to support its public school system. State and local funds constituted \$10.9 billion of this amount.

SCOPE AND METHODOLOGY

Our review focused on the department's actions to implement recommendations that the Auditor General made to the department between 1980 and 1984. To determine whether the department has implemented these recommendations, we reviewed the Auditor General's 15 performance audit reports on programs that the department administers. We identified the recommendations in each report and reviewed the department's plans for implementing the recommendations. We interviewed department personnel, reviewed legislation, and obtained available documentation supporting the department's implementation of the recommendations.

ANALYSIS

THE STATE DEPARTMENT OF EDUCATION IMPLEMENTED MOST OF THE AUDITOR GENERAL'S RECOMMENDATIONS

The State Department of Education (department) fully implemented 45 (79 percent) recommendations and partially implemented 2 recommendations that addressed deficiencies in educational programs and departmental activities. Between 1980 and 1984, the Auditor General reviewed and recommended improvements for a number of the department's programs and activities, including bilingual education, special education, child care, child nutrition, and the apportionment of state funds to school districts. The Auditor General recommended that the department develop and distribute policy manuals covering several of the department's programs, more vigorously enforce school districts' compliance with specific provisions of the Education Code and the California Administrative Code, and more effectively follow up on audit exceptions identified in the school districts' audit reports. The following table summarizes the status of the recommendations made to the department.

TABLE 1
STATE DEPARTMENT OF EDUCATION
STATUS OF RECOMMENDATIONS MADE
BY THE AUDITOR GENERAL
1980 TO 1984

<u>Status</u>	<u>Number</u>	<u>Percent of Total</u>
Implemented	45	79%
Partially Implemented	2	4%
No Longer Applicable	7	12%
Not Implemented	<u>3</u>	<u>5%</u>
Total	<u>57</u>	<u>100%</u>

For example, one recommendation that the department implemented involves the department's administration of the Child Care Food Program. Auditors found that the program kept eligible children from participating because the department was not promptly processing applications from child care providers interested in participating in the program. As a result, a large backlog of applications developed. The Auditor General recommended that the department eliminate this backlog and take steps to avoid future backlogs. The department streamlined its system for processing applications and allocated more staff to this activity. Consequently, eligible children are allowed to participate in the food program in a more timely manner.

Another recommendation that the department implemented concerns the department's administration of the State's child care program. Child care providers participating in the State's child care

program enter into a contract with the department. One provision of this contract requires each provider to arrange for an annual financial audit of the contractor's program. The department's audit bureau reviews each provider's reported revenue, income, and attendance totals and computes whether the department has overpaid or underpaid the provider. Based on this computation, the audit bureau recommends whether a provider should be billed for the overpayment or be reimbursed for the underpayment. These audit reports also help determine whether the recipient agencies properly use the approximately \$265 million in child care and development funds that the department administers. In 1982, the Auditor General found that the department took an average of 17 months to review these audit reports. The department adopted the Auditor General's recommendation to expedite the reviews, and our review of the department's processing of a sample of ten audit reports shows that the department completed their review of these audit reports in about 5 to 6 months.

In the 15 audit reports that we reviewed, the Auditor General also made 12 recommendations to the Legislature. Five of these recommendations led to some change in statutes.

Appendix A to this report provides more detail on the department's actions to implement (or partially implement) the Auditor General's recommendations.

The Department Did Not Implement Three
Of The Auditor General's Recommendations

The department did not implement 3 of the 57 recommendations that the Auditor General made to the department. However, for reasons specified below we see no need to pursue these recommendations further.

One of the recommendations that the department did not implement involves the department's standards for financial and compliance audits of school districts. The Auditor General recommended that the department, in cooperation with the Department of Finance, change the standards for the annual audits of school districts so that the audit reports would contain more detailed information on child care programs operated by the school districts. The Auditor General said that the information in these audit reports should enable the department to validate the amount of child care funds to which each school district is entitled.

According to a department official, the department did not implement this recommendation because the Department of Finance did not agree with the recommendation. However, Chapter 1440 of the Statutes of 1984 assures that the Auditor General is involved in developing the audit standards for financial and compliance audits of child care providers. In addition, legislation passed in 1984 requires the State Department of Education to form a task force to review the current fiscal management of the department. In establishing this task force, the department included a member of the Office of the Auditor General.

As a result, the Auditor General can ensure that the department will consider expanding the audit requirements for audits of child care programs operated by school districts. Because the Auditor General is involved in developing the audit standards and is represented on the department's fiscal management task force, we see no need to pursue this matter further until the task force completes its work.

Another of the Auditor General's recommendations that the department has not implemented involves the department's responsibility for reviewing independent audit reports of school districts to ensure compliance with audit standards and to resolve audit exceptions. The Auditor General recommended that the department conduct pilot tests to match the information in the audit reports to the fiscal information that the department receives from the school districts. During a fiscal year, each school district sends fiscal and attendance data to the department. Based on these unaudited data, the department allocates state school funds and program funds to school districts. The department recognizes that, under this arrangement, it is apportioning funds based upon unaudited data. However, during the next fiscal year, independent auditors will validate the data that the school district has sent to the department. The department must follow up on any adjustments that are made as a result of the independent audit, and it may file a claim against the school district in question.

In addition, for fiscal year 1984-85, the Legislature established a new program to review and report on the financial and

compliance audits of school districts. The State Controller has the primary responsibility for implementing and overseeing this program. Because of this and because the fiscal and attendance data that school districts send to the department are eventually validated, we recommend no further audit work in this area.

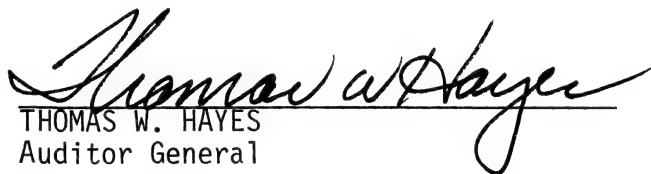
The third of the Auditor General's recommendations that the department has not implemented involves the department's apportionment of funds from the state school fund. Each fiscal year, the department apportions funds to school districts based upon attendance data that the districts send to the department. In December and May, school districts send attendance data to the department. From this data, the department estimates the demand that will be made on the state school fund. However, average daily attendance has historically declined between December and May.

In a 1981 audit report, the Auditor General recommended that the department consider this decline in estimating the condition of the state school fund. In an earlier report (May 1980), the Auditor General recommended that the department actually adjust each district's December attendance reports for this decline. The department did not implement this 1980 recommendation because it believed it needed statutory authority to do so; the Legislature has not provided this authority. However, the department did implement the Auditor General's 1981 recommendation to consider the decline in average daily attendance in estimating the condition of the state school fund. Department

officials have assured us that, in discussions with school districts, state control agencies, legislative staff, and other interested parties, the department takes account of the decline in average daily attendance in its estimates. Therefore, we recommend no further audit work in this area.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: December 10, 1984

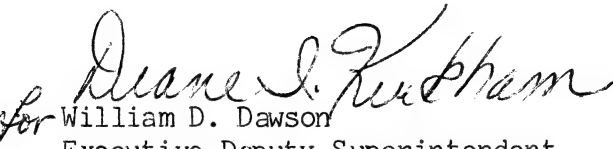
Staff: Thomas A. Britting, Audit Manager
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M e m o r a n d u m

To : Thomas Hayes, Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

Date : November 30, 1984

File No.:

From : 
for William D. Dawson
Executive Deputy Superintendent

Subject: A Review of the State Department of Education's Actions to Implement Auditor General Recommendations Made Between 1980 and 1984 - No. P-459.1

The Department of Education is very pleased to receive your draft report documenting our successful efforts to implement the recommendations of your office from 1980-1984. We believe this report reflects our continued desire to improve the efficiency and effectiveness of our Department's operations. Out of the 57 recommendations, only 3 (5%) were not implemented. For each of the 3 recommendations not implemented, your staff recognized our reasons and recommended no further audit work at this time. Overall, we believe this is a very successful record. We want to especially acknowledge the many dedicated staff members throughout the Department who worked so diligently to comply with your audit findings.

The spirit of professionalism and cooperation evidenced by your staff during these audits was much appreciated. The high percentage of recommendations implemented demonstrates our Department's respect for your staff and their recommendations.

We look forward to a continuing spirit of cooperation.

WDD:pa

**STATE DEPARTMENT OF EDUCATION
IMPLEMENTATION OF AUDITOR GENERAL RECOMMENDATIONS
1980 THROUGH 1984**

Report Title (Report No.)	Issue Date	Number of Recommendations	Auditor General's Recommendations	Summary of State Department of Education's Action
Financing and Administration of Special Education Programs for Handicapped Pupils (P-929)	February 1980	2	<p>The department should develop specific eligibility criteria for placing students in special education programs.</p> <p>The department should provide to school districts improved guidelines for assessing the progress of special education students and for providing related services to handicapped students.</p>	<p>The State Board of Education adopted statewide eligibility criteria in 1983.</p> <p>The department has developed comprehensive guidelines to assist school districts in determining pupil progress.</p>
Review of the State Department of Education's Administration of the Child Care Food Program (P-920.1)	March 1980	12	<p>The department should streamline its system for processing applications for the child care food program and eliminate the existing backlog of unprocessed applications.</p> <p>The department should strengthen its system for disseminating information to those agencies participating in the child care food program by distributing a policy manual, providing additional technical assistance to participants, and by convening periodic forums between department staff and participating agencies.</p>	<p>The department streamlined its review and processing of applications for the child care food program, eliminated the backlog, and now processes applications within 30 days.</p> <p>In 1981, the department distributed a policy manual to all agencies participating in the child care food program. The department has also established a toll-free telephone line for participating agencies that have questions about the program. In addition, the department conducts 10 to 12 workshops a year that present the basics of operating a child care food program.</p>
Implementation of Bilingual Education in California (P-901)	March 1980	4	<p>The department should monitor school districts' procedures for identifying "limited English proficient" students to ensure that all eligible students are served.</p>	<p>The department established the Consolidated Programs Unit to follow up on school districts that do not comply with the requirements of the bilingual education program.</p>

<u>Report Title (Report No.)</u>	<u>Issue Date</u>	<u>Number of Recommendations</u>	<u>Auditor General's Recommendations</u>	<u>Summary of Auditor General's Recommendations</u>	<u>State Department of Education's Action</u>
				The department should more vigorously follow up on school districts that are not complying with the requirements of the State's bilingual education program.	See above
				The department should provide detailed guidelines to school districts for providing individualized learning programs to "limited English proficient" students.	The department developed and disseminated a handbook for school districts in establishing individual learning programs for "limited English proficient" students.
A Review of the State Department of Education's Procedures for Allocating Child Care Expansion Funds (P-941)	March 1980	1	In seeking requests for proposals from new child care providers, the department should clearly identify all funding priorities, funding limitations, and rating criteria.		The department added a bidder's conference and a series of workshops to the process it follows to select child care providers. At these meetings, bidders discuss funding priorities, funding limitations, and rating criteria with department personnel.
The State Department of Education's Administration of School Nutrition Programs (P-920)	May 1980	1	The department should announce its policy of allowing school districts to participate in the child care food program.		In August 1980, the department announced its revised policy of allowing school districts to participate in the child care food program.
Analysis of the State School Fund Shortfall (P-009)	May 1980	3	When estimating the total funds available for allocation to school districts, the department should consider all sources of revenue.		After the State Controller notifies the department that monies have been deposited into the State School Fund, the department will take these monies into account when estimating the condition of the State School Fund.
			In determining each school district's revenue needs, the department should use the most current information available on the amount of local revenue available to each school district.		In accordance with legislation passed in 1980, the department is receiving current information from school districts on the amount of local revenue available to the district.

<u>Report Title (Report No.)</u>	<u>Issue Date</u>	<u>Number of Recommendations</u>	<u>Auditor General's Recommendations</u>	<u>State Department of Education's Action</u>
Development and Implementation of Standards and Procedures for Audits of California Local Education Agencies (P-735)	July 1980	1	The department should more effectively follow up on the audit exceptions noted by the independent auditors in their annual financial and compliance audits of school districts.	In accordance with legislation passed in 1980, the department has implemented this recommendation.
Improved Administration and Attendance Accounting Needed in Independent Study Programs (P-033)	April 1981	4	<p>The department should provide additional guidance to school districts administering independent study, especially in completing written agreements with participating students.</p> <p>The department should develop reporting requirements so that it can monitor independent study programs more effectively.</p> <p>The department should develop and disseminate specific regulations on accounting for student attendance in the independent study program.</p>	<p>The department distributed to school districts a manual of operating procedures and suggested curricula for students participating in independent study programs.</p> <p>The department now requires school districts to report additional information on the independent study program.</p> <p>In 1982, the State Board of Education approved revised regulations on how school districts are to account for students participating in independent study programs.</p> <p>In its communications with the Legislature, state control agencies, school districts, and other interested parties, the department considers the decline in attendance in its revenue estimates.</p> <p>Once this error was pointed out, the department immediately corrected it.</p>
The State Department of Education Overestimated the State School Fund Shortfall (P-009.1)	May 1981	3	<p>In estimating the total amount of state funds available for allocation to school districts, the department should take into account the typical decline in attendance from the beginning to the end of the school year.</p> <p>The department should correct an error that it made in adjusting each school district's apportionment from the State for an educational program that was being phased out.</p>	

<u>Report Title (Report No.)</u>	<u>Issue Date</u>	<u>Number of Recommendations</u>	<u>Auditor General's Recommendations</u>	<u>State Department of Education's Action</u>
Wide Variations in School District Costs for Administering the State-Mandated Immunization Program (P-048)	October 1981	0	The department should comply with provisions of the Education Code in computing each district's state apportionment for adult education.	At the first opportunity after the Auditor General issued this report, the department computed each district's state apportionment for adult education in accordance with the Education Code.
A Review of the State Department of Education's System for Managing Consultant Contracts (P-066)	October 1981	3	The department should incorporate its contracting procedures in its administrative manual and periodically conduct training programs for departmental staff. The department should direct its internal audit unit to regularly audit contracting practices within the department to assure compliance with the department's contracting procedures. The department's accounting office should improve the controls over payments to consultants to assure that payments are properly approved.	The department has drafted a section on contracting procedures; this section will be included in the department's administrative manual. As part of its annual audit of the department's internal controls, the internal audit unit reviews the department's contracting activity. The department revised its procedures for approving payments to contractors to ensure that contractors are not overpaid.
School Districts Need To Improve Their Administration of Consultant Contracts (P-060)	January 1982	0	The recommendations are not made to the department.	
Improvements Needed in the State Department of Education's Apportionment of State School Funds (P-032)	March 1982	2	The department should assure that its legal staff and internal audit staff actively participate in the apportionment process to provide greater assurance that it is effective and reliable.	The department's legal staff participates in the apportionment process on an "as needed" basis. The Auditor General now annually reviews the department's internal control over the apportionment process.

<u>Report Title (Report No.)</u>	<u>Issue Date</u>	<u>Number of Recommendations</u>	<u>Summary of Auditor General's Recommendations</u>	<u>State Department of Education's Action</u>
Improvements Needed in Administering State-Funded Child Care Programs (P-098)	September 1982	10	<p>The department should direct its data management services staff to thoroughly document the computer applications and manual procedures associated with the apportionment of state funds to school districts.</p> <p>The department should closely monitor the funds that it advances to child care providers to ensure that each provider is earning the funds advanced to it.</p> <p>The department should vigorously enforce the requirement that providers periodically report fiscal and attendance data to the department.</p> <p>The department should more effectively recoup funds from providers who have agreed to repay, in installments, amounts owed to the State.</p> <p>The department should change the method of computing a provider's earnings so that earnings are a better measure of child care services actually provided.</p>	<p>The department has assured the Auditor General that the documentation of computer applications and manual procedures associated with apportionment of state funds to school districts has been completed.</p> <p>At mid-year and at year-end, the department reviews each child care provider's earnings to assure that all providers have earned the funds that have been advanced to them.</p> <p>The department penalizes providers that do not submit their fiscal and attendance reports by withholding the cash advances.</p> <p>The department has developed a system that monitors the department's accounts receivables at regular intervals.</p> <p>In accordance with the 1984-85 Budget Act, the department has revised its method of computing a provider's earnings to assure a closer correlation between earnings and child care services actually delivered.</p>
The State's Project Workability Has Improved the Coordination of Services for and Employability of Handicapped Students (P-281)	February 1984	1	<p>The Departments of Education and Rehabilitation and the Employment Development Department should continue to participate in "Project Workability."</p>	<p>The department has continued to participate in "Project Workability."</p>

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps